

## Message Text

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PAGE 01 STATE 011677  
ORIGIN EB-07

INFO OCT-01 AF-08 EUR-12 NEA-10 ISO-00 COME-00 INT-05  
AGRE-00 SIG-01 L-03 FRB-03 OMB-01 ITC-01 SP-02  
USIA-06 AID-05 CIAE-00 INR-07 IO-13 LAB-04 NSAE-00  
OIC-02 SIL-01 STR-04 TRSE-00 CIEP-01 CEA-01 FEA-01  
DODE-00 H-01 NSC-05 PA-01 SS-15 PRS-01 /122 R

DRAFTED BY EB/ICD/ISM:AKOBLER  
APPROVED BY EB/ICD:EAWENDT  
EB/ISM:WCLENAHAN  
COMMERCE:TGILLET (DRAFT)  
BUMINES:WSTOWASSER(DRAFT)  
EB/ITP:TO'HERRON  
USDA:DAHALT  
EUR/RPE:ECASEY  
NEA/AFN:TWILKINSON

-----182209Z 084947 /72L-62

P 182040Z JAN 77  
FM SECSTATE WASHDC  
TO AMEMBASSY RABAT PRIORITY  
INFO AMEMBASSY ALGIERS PRIORITY  
AMEMBASSY AMMAN  
AMEMBASSY CAIRO  
AMEMBASSY DAKAR  
AMEMBASSY LOME  
AMEMBASSY MADRID  
AMEMBASSY TUNIS  
AMEMBASSY NOUAKCHOTT  
USMISSION EC BRUSSELS  
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E.O. 11652: N/A

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TAGS: EMIN,PORG

SUBJECT: PROPOSED MULTILATERAL TALKS ON PHOSPHATES

REF: A) RABAT 0084  
B) 76 EC BRUSSELS 9734  
C) 76 EC BURSSSELS 12558

D) 76 STATE.301038

E) AMMAN 0088

1. CONCERNING REFTEL A'S DISCUSSION OF POSSIBLE MULTI-LATERAL TALKS ON PHOSPHATES, THERE ARE THREE SEPARATE TRACKS IN PLAY:

A)UNCTAD--A PREPARATORY CONSULTATION ON PHOSPHATES IS TENTATIVELY SCHEDULED FOR DECEMBER 1977, AS PART OF THE COMMODITY TALKS RESULTING FROM UNCTAD RESOLUTION 93 (IV) ADOPTED IN NAIROBI LAST MAY. THESE CONSULTATIONS ARE INTENDED TO BRING TOGETHER PRODUCERS AND CONSUMERS TO DISCUSS CURRENT CONDITIONS, AS WELL AS TO CONSIDER ALTERNATIVES FOR IMPROVING THE FUNCTIONING OF THE PHOSPHATE ROCK MARKET.

B) UNIDO--TECHNICAL EXPERTS, INCLUDING US PARTICIPANTS, WILL MEET IN VIENNA JANUARY 17-21 TO DISCUSS THE WORLD FERTILIZER INDUSTRY. THE AGENCY COVERS LOCATION AND

DISTRIBUTION OF FERTILIZER FACILITIES BETWEEN DEVELOPED AND DEVELOPING COUNTRIES; CONSTRUCTION AND OPERATION OF PLANTS; INFRASTRUCTURE; AND PRODUCTION AND DISTRIBUTION. A UNIDO STUDY GROUP HAS PREPARED A LENGTHY SURVEY OF THE FERTILIZER INDUSTRY FOR THE CONSULTATIONS.

C) EC-THE EC PHOSPHATE FERTILIZER INDUSTRY, ESPECIALLY FRENCH, ITALIAN AND IRISH, HAS LOST PART OF ITS DOMESTIC AND FOREIGN MARKETS UNDER HEAVY COMPETITIVE PRESSURE FROM AMERICAN PROCESSORS. REFTEL B SUGGESTED THAT CONSULTATIONS LIMITED OFFICIAL USE

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IN THE OECD COULD SEEK TO ANALYZE THE PHOSPHATE ROCK AND FERTILIZER MARKET IN LIGHT OF EC COMPLAINTS OF ALLEGED DISCRIMINATORY PRICING PRACTICES BY AMERICAN PHOSPHATE EXPORTERS. WE ARE CONSIDERING THE UTILITY OF SUCH A MEETING.

2. THE UNCTAD CONSULTATIONS SHOULD OFFER THE OPPORTUNITY FOR PRODUCER AND CONSUMER COUNTRIES TO DEAL WITH PRIMIN OSMAN'S CONCERNS NOTED PARA 1 REFTEL A. IN CONTRAST, MOST PHOSPHATE ROCK PRODUCERS ARE NOT DIRECTLY REPRESENTED AT CIEC. IN ADDITION THE CIEC RAW MATERIALS COMMISSION IS DEALING WITH BROADER ISSUES RATHER THAN DETAILED CONSIDERATION OF INDIVIDUAL COMMODITIES.

3. IN THE FOLLOWING RESPECTS, WE DIFFER WITH YOUR ANALYSIS OF THE PHOSPHATE MARKET AS SUMMARIZED IN PARA 3 OF REFTEL A:

A) THE "COST ADVANTAGE" OF AMERICAN PHOSPHATE FERTILIZER

PRODUCERS VIS-A-VIS EUROPEAN COMPETITORS IS NOT A TEMPORARY" PHENOMENON. RATHER, IT IS MAINLY THE RESULT OF THE VERTICAL INTEGRATION OF AMERICAN MINING AND PROCESSING OPERATIONS; IN CONTRAST, EUROPEAN PROCESSORS ARE COMPLETELY DEPENDENT ON FOREIGN ROCK. WHEN EUROPE'S PRINCIPAL ROCK SUPPLIERS IN NORTH AFRICA RAISED PRICES SHARPLY IN 1973, THE VULNERABILITY OF THE EUROPEAN FERTILIZER INDUSTRY BECAME APPARENT. NORTH AFRICAN PHOSPHORIC ACID AND OTHER PROCESSING CAPACITY SHOULD BEGIN SOON TO PROVIDE STRONG COMPETITION TO US FERTILIZER PRODUCERS, PARTICULARLY IN THE EUROPEAN MARKET, WHERE THE NORTH AFRICANS ENJOY A TARIFF ADVANTAGE UNDER GSP. BUT IT REMAINS TO BE SEEN WHAT SHARE OF THE WORLD EXPORT MARKET THEY WILL EVENTUALLY COMMAND.

B) FROM OUR PERSPECTIVE ON THE EC PHOSPHATE PROBLEM, US ROCK AND FERTILIZER EXPORTERS SHOULD NOT BE HELD RES-  
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PONSIBLE FOR A SITUATION WHICH STEMMED FROM THE 1973 DECISION OF NORTH AFRICAN PRODUCERS NO LONGER TO SELL ROCK TO THEIR TRADITIONAL EUROPEAN CUSTOMERS AT PRICES CLOSE TO THE REAL RESOURCE COST. EUROPEAN PROCESSORS SHIFTED SOME ROCK PURCHASES TO THE US MARKET, BUT THEY REMAIN HEAVILY DEPENDENT ON MEDITERRANEAN RAW MATERIAL SUPPLIERS.

C) THE PROJECTIONS YOU CITE THAT "US LIKELY TO BECOME NET IMPORTER OF IMPORTANT AMOUNTS OF PHOSPHATE ROCK IN NOT DISTANT FUTURE" ARE PROBABLY EXAGGERATED IF THEY IMPLY A PERIOD MUCH LESS THAN 25 YEARS. A RECENT BUMINES PROJECTION SHOWED US PHOSPHATE ROCK DEMAND GROWING AT 3 PERCENT ANNUALLY AND THE US BECOMING A NET IMPORTER AFTER AROUND 2004. BUMINES ESTIMATED US RECOVERABLE RESERVES AT 2.3 BILLION MT ASSUMING A CONSTANT MARKET PRICE (DOLLARS 30.49 MT, FOB FLORIDA 1974) AND CURRENT TECHNOLOGY. CHANGING REAL PRICES AND/OR IMPROVED TECHNOLOGY CAN SIGNIFICANTLY ALTER SUCH RESERVE ESTIMATES, USUALLY UPWARD. IN ANY CASE, THE PROJECTIONS CITED IN REFTEL A ARE NOT FIRM ENOUGH TO DRAW POLICY CONCLUSIONS. USING A MORE REALISTIC PLANNING HORIZON, 5-10 YEARS, WE ARE REASONABLY CONFIDENT THAT THE US WILL CONTINUE TO PLAY A MAJOR ROLE IN THE WORLD FERTILIZER MARKET. WHILE WE DOUBT THE NEED FOR THE US TO SEEK "ASSURED LONG-TERM SUPPLY ARRANGEMENTS WITH MOROCCO" DURING THIS PERIOD, IT IS CLEAR THAT MOROCCO WILL BE AN ASCENDING MARKET POWER IN PHOSPHATE ROCK, ACID AND FINISHED FERTILIZER.

4. AS THE MAJOR PHOSPHATE EXPORTERS, THE US AND MOROCCO HAVE A MUTUAL INTEREST IN ACHIEVING NON-DISCRIMINATORY ACCESS TO WORLD MARKETS FOR THEIR PHOSPHATE ROCK. THE US,

AS THE LARGEST AGRICULTURAL PRODUCER, ALSO HAS AN INTEREST IN MINIMIZING COSTS OF INPUTS, INCLUDING PHOSPHATE FERTILIZER. THEREFORE, WE WOULD OPPOSE ARRANGEMENTS INTENDED TO SUPPORT PHOSPHATE ROCK PRICES AT ARTIFICIALLY HIGH LEVELS.

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5. GIVEN THE IMPORTANCE OF THE PHOSPHATE INDUSTRY TO MOROCCO'S BALANCE-OF-PAYMENTS AND DOMESTIC ECONOMY, THE GOM'S DESIRE TO MAXIMIZE RETURN FROM THAT SECTOR IS UNDERSTANDABLE BUT DOES NOT NECESSARILY COINCIDE WITH OUR CONCERN FOR AGRICULTURAL COSTS AND OUR DESIRE TO AVOID A REGULATED PHOSPHATE ROCK MARKET. WE BELIEVE US POLICY SHOULD AIM TO PERSUADE THE MOROCCANS AND OTHER PHOSPHATE PRODUCERS THAT THE INTERESTS OF BOTH PRODUCERS AND CONSUMERS ARE BEST SERVED IN A BASICALLY OPEN MARKET ENVIRONMENT WHICH PROVIDES FREE ACCESS FOR PRODUCERS, ENCOURAGES INVESTMENT IN DOWNSTREAM PROCESSING IN COUNTRIES WITH A RAW MATERIAL BASE, AND LEADS TO STABLE GROWTH OF BOTH SUPPLY AND DEMAND.

6. IN LIGHT OF REFTEL E, EMBASSY MAY WISH TO INQUIRE FURTHER WITH MOROCCAN PHOSPHATE AUTHORITIES ABOUT JOINT ACTIVITIES OF OTHER ROCK PRODUCERS, IN PARTICULAR ANY COOPERATIVE ACTION PROGRAM THEY MAY HAVE IN MIND. NATURALLY, SUCH INQUIRY SHOULD BE MADE WITHOUT CITING SOURCE OF INITIAL REPORT. AS RATIONALE FOR APPROACH, EMBASSY COULD USE FACT OF USG PLANNED PARTICIPATION IN FORTHCOMING UNCTAD PHOSPHATE TALKS.

7. AS THE UNCTAD PHOSPHATE CONSULTATIONS APPROACH, WE WOULD WELCOME THE EMBASSY'S FURTHER ANALYSIS OF MOROCCO'S INTERESTS AND INTENTIONS;  
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## Message Attributes

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**Subject:** PROPOSED MULTILATERAL TALKS ON PHOSPHATES  
**TAGS:** EMIN, PORG, UNCTAD, UNIDO, EEC  
**To:** RABAT  
**Type:** TE  
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